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R. J. Reynolds Tobacco Company

WINSTON-SALEM, N. C.

January 17, 1946.

To the Stockholders of

R. J. REYNOLDS TOBACCO COMPANY:

The Financial Statement of your Company as at December 31, 1945, is submitted herewith.

Net earnings for the year 1945 amounted to $19,229,309.85, compared with $17,187,757.18 for 1944, after provision for depreciation, taxes and all other charges. After deduction of dividend requirements of $765,983.60 on the Company's Preferred Stock, 3.60% Series, the net earnings for 1945 available for the common stocks amounted to $1.84 per share, compared with $1.71 per share for 1944. The Company was not subject to excess profits taxes for 1945 and in addition to earnings for that year became entitled to a credit for excess profits tax carry-back adjustment in the amount of $467,545.12. Dividends on the common stocks amounting to $1.60 per share were paid in 1945 as against $1.50 per share in 1944.

In 1945 the Company's Certificate of Incorporation was amended to authorize $75,000,000 of par value of Preferred Stock. The Company issued $49,000,000 of this Preferred Stock in a 3.60% series carrying dividends from July 21, 1945. Stockholders of record on July 7, 1945, were given pro rata rights to subscribe for this issue.

Under the five-year revolving or stand-by credit for $100,000,000 with twelve of the Company's depositary banks, which credit runs to June 30, 1949, notes were outstanding at the end of the year in the amount of $74,500,000. The interest rate on these notes is 1½%. The use of funds under this credit for the purchase of leaf tobacco continues to be advantageous.

At December 31, 1945, current assets exceeded current liabilities by $199,695,064.06, compared with a like excess of $148,231,529.13 at the end of 1944. Inventories at the end of 1945 were $265,022,007.66, compared with $208,436,450.55 at the end of 1944. This increase in inventories, while principally due to increased quantities of leaf tobacco which the Government permitted the Company to purchase following larger production by growers as permitted by the Government, reflects also the somewhat higher prices paid for leaf tobacco. In accordance with the long established accounting practice of the Company and of the tobacco industry generally, each purchase of tobacco from any crop is averaged in, grade by grade, with tobaccos on hand and thereby an average cost for each grade is established.

More CAMEL Cigarettes were sold in 1945 than in any previous year. Likewise, total sales of all Company products expressed in dollars were larger than ever before, evidencing not only the increased unit volume of CAMEL Cigarettes, PRINCE ALBERT Smoking Tobacco and other products but also the fact that in 1945, following the reduction in Government requirements for tax-free export shipments to the Armed Forces, a larger portion of the Company's products was sold with the Federal Internal Revenue Stamp Tax paid than was so sold in the preceding year.

As is well known, price ceilings for the Company's products are still fixed by O.P.A. The price ceiling for CAMEL Cigarettes was fixed at the price in effect in 1937 (adjusted for increased Internal Revenue Stamp Taxes) and O.P.A. continues to hold the ceiling to that original basis despite the fact that the cost of the principal raw material—leaf tobacco—has increased very substantially during the period following the fixing of the price ceiling.

During the year the United States Government advised the Company that it claims no liability against the Company on account of renegotiation of sales made to the Government during the years 1942 and 1943. Renegotiation of similar sales for subsequent years has not been completed. It is not expected that any material liability against the Company will result therefrom.

Because of a substantial reduction in the quantity of cigarettes required for export to the Armed Forces and because of larger acquisitions of leaf tobacco as permitted by the Government from recent crops following gradual increases in the quantity of tobacco which the Government has permitted farmers to grow, the Company has been able to increase the supply of CAMEL Cigarettes available for civilians. While civilian requirements have still not been fully met, it is expected that as the permitted increased inventory acquisitions become available for manufacture the Company will again be able to supply the full demand for CAMELS.

In view of the fact that the demand for CAMEL Cigarettes continued to exceed available supply during 1945, the Company further reduced its advertising and other promotional expenditures for the year.

Following the victorious conclusion of the war, a large number of employees who had been in the Armed Forces have been welcomed back into the service of the Company and it is hoped that those still with the Armed Forces may soon be in position to return.

Jas. A. Gray,
President.